

BEFORE THE FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of	)	
	)	WC Docket No. 05-337
Merits of Using Auctions to Determine	)	
High-Cost Universal Service Support	)	

OPENING COMMENTS  
OF

OREGON-IDAHO UTILITIES, INC.  
HUMBOLDT TELEPHONE COMPANY

October 10, 2006

Regulatory Offices  
Oregon-Idaho Utilities, Inc.  
Humboldt Telephone Company  
3645 Grand Avenue, Suite 205A  
Oakland, CA 94610

510/338-4621  
jbeck@or-id.com

BEFORE THE FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of	)	
	)	WC Docket No. 05-337
Merits of Using Auctions to Determine	)	
High-Cost Universal Service Support	)	

OPENING COMMENTS  
OF

OREGON-IDAHO UTILITIES, INC.  
HUMBOLDT TELEPHONE COMPANY

1. Oregon-Idaho Utilities, Inc. (OIU) and Humboldt Telephone Company (HTC)<sup>1</sup> respectfully present their Comments in response to the Commission's Public Notice of August 11, 2006, presenting the request of the Federal-State Joint Board on Universal Service (Joint Board) for comments on the use of reverse auctions to determine high cost universal service funding to eligible telecommunications carriers (ETCs). OIU and HTC understand the need for universal service program rules that can maintain the current high service quality standards provided by the rural ILEC service providers without leading to unsupportable levels of total

---

<sup>1</sup> OIU and HTC are incumbent, rural LECs under common ownership. They provide local exchange service and exchange access service in the states of Oregon, Idaho, and Nevada, serving approximately 1,800 access lines across a 10,000 square mile service area. They depend on universal service program revenues to meet the high costs of providing universal service in this extremely remote territory, which is more than twice as large as the State of Connecticut.

support requirements. The proposal to utilize a system of reverse auctions to determine support is not, however, a solution that would be consistent with the statutory goals and requirements of Section 254 of the Communications Act.

2. **COMPETITIVE ETC SUPPORT.** The increases in the high-cost universal service program in recent years have been caused by the explosion in total costs for ETC support to wireless carriers under the ill-advised principle of basing wireless ETC support on costs that the incumbent wireline carrier experiences to provide wireline service. The current policy of providing "equal support" for the "unequal services" provided by wireless ETCs makes no economic sense, and it certainly defies common sense. This is the aspect of the current high-cost support program that is in need of immediate reform. It is a reform that can be easily adopted and implemented, in contrast to the prospect of further convoluting the universal service high cost funding program with a reverse auction mechanism.

3. **REVERSE AUCTIONS AS A FUNDING ALTERNATIVE.** The test of any universal service funding distribution proposal must be its ability to deliver telecommunications services to customers in rural areas that are "comparable" in quality and price to services available in urban areas. The mechanism must be predictable and must provide "sufficient" support to achieve universal service goals.<sup>2</sup> The current high cost support programs meet these tests and achieves these goals. A system based on reverse auctions, however, would fail these tests. It would be based on untested promise and speculation in the bidding process and would be subject to

---

<sup>2</sup> Section 254, Communications Act of 1934.

manipulation by large providers. The obvious problems of reverse auctions include:

- **FINANCIAL SPECULATION AND RISK.** Providing telecommunications services in rural areas requires large capital investment, often with a 25+ year period of capital recovery. An incumbent with embedded facilities would face an unacceptable level of risk in continuing to make capital investments subject to the vagaries of future auctions. Auctions are driven by speculation of future investment and operations. The Commission's experience with failed wireless auctions is illustrative of the problems that reverse auctions could pose. Similarly, the bankruptcies of CLECs, wireless carriers, and interexchange carriers illustrates how even large and well-financed entities have been unable to develop business plans that would maintain viability. Providing universal service support based on carrier speculation as to future plans and costs is not suited to the attainment of universal service goals.

- **APPLES AND ORANGES.** As noted above, the current program of providing high cost support to wireless ETCs is based on the incorrect assumption that wireless and wireline services are equivalent. In fact, wireless service in rural areas comes nowhere near the service quality standards provided by wireline ILECs. Despite this obvious fact, wireless ETCs are deemed to be equivalent to wireline ILECs when they are provided with support based on wireline costs rather than their own costs. Auctions based on competition between non-equivalent services would suffer from the same problem.

- **REGULATORY MORASS.** The number of questions posed by the Public Notice and the complexity of the Discussion Proposal in the Attachment illustrates the complexity of the new rules required to implement any reverse auction proposal. New rules would be required at the federal level and as well as complementary rules in 50 state jurisdictions. New rules that may sound straightforward when proposed, however, often turn out to be chaotic in the implementation process. Recent examples of such rules include cost proxy models and interconnection arbitration rules. What is certain is that the new rules would not be able to anticipate the problems that would be encountered in their implementation or the "creativity" with which parties would approach the reverse auction process.<sup>3</sup>

4. **CONCLUSION.** The problem of containing the total program cost of universal service support should be addressed by revisions to the existing program rather than by eliminating the system that has succeeded in bringing quality, affordable telecommunications services to rural

---

<sup>3</sup> By way of example, the rather simple rules requiring the payment of access charges when using access services have produced VNXX, VOIP, credit card "information services," and phantom traffic as methods of attempting evasion of the rules.

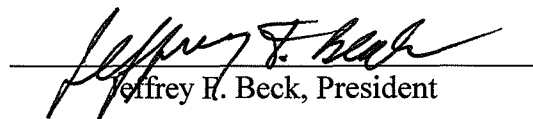
Opening Comments of OIU and HTC  
WC Docket No. 05-337  
October 10, 2006  
Page 4

America. The obvious first step should be providing support to wireless ETCs based on their own costs rather than on the costs of the wireline ILEC. The proposal for utilizing reverse auctions to determine support would not result in predictable and sufficient support for the comparable services required by Section 254 of the Communications Act.

Dated, October 10, 2006

Respectfully Submitted,

OREGON-IDAHO UTILITIES, INC.  
HUMBOLDT TELEPHONE COMPANY

  
Jeffrey R. Beck, President

Regulatory Offices  
Oregon-Idaho Utilities, Inc.  
Humboldt Telephone Company  
3645 Grand Avenue, Suite 205A  
Oakland, CA 94610

510/338-4621  
jbeck@or-id.com